

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 521

INFO AMEMBASSY LONDON

USOECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 7213

E.O. 11652: GDS

TAGS: EGEN, OECD, JA, UK

SUBJ: BRITISH CONCERN ABOUT JAPANESE ECONOMIC POLICY

REF: (A) STATE 124387

(B) USOECD PARIS 13832

(C) USOECD PARIS 13215

1. SUMMARY. EMBASSY COMMENTS ON UK CRITICISM OF JAPANESE
MACROECONOMIC POLICY ARE OUTLINED BELOW. END SUMMARY.

2. INFORMAL UK APPROACH TO US REPORTED REFTEL A APPEARS TO
HAVE BEEN OVERTAKEN TO CERTAIN EXTENT BY UK DECISION TO "GO
PUBLIC" AT OECD MINISTERIAL LAST WEEK IN FORM OF (A) CONDITIONING
UK ACCEPTANCE OF RENEWAL OECD TRADE PLEDGE ON MORE VIGOROUS
ACTION BY STRONGER OECD COUNTRIES TO REFLATE AND (B) SPECIFIC
REFERENCE BY UK MINISTER SHORE AT OECD MEETING TO PARTICULAR
NEED FOR SUCH ACTION BY ONE OECD COUNTRY. WE NOTE GOJ

APPARENTLY ASSUMED IT WAS THE TARGET OF UK CRITICISM
WHILE USOECD REPORT (REFTEL B) SAYS FEDREP WAS TARGET.
EVIDENCE THAT GOJ CONSIDERED ITSELF TO BE THE MAIN TARGET
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OF UK CRITICISM INDICATED BY FOREIGN MINISTER MIYAZAWA'S
COMMENTS TO PRESS AFTER OECD MEETING (HEADLINED MAY 30-31
PAPERS) THAT GOJ WILL NOT CHANGE ITS CURRENT POLICY DESPITE
STRONG UK CRITICISM IN SINGLING OUT JAPAN FOR FAILING TO

REFLATE FAST ENOUGH; MIYAZAWA REAFFIRMED PRIMARY GOJ
ECONOMIC POLICY GOAL REMAINS TO BRING DOWN RATE OF INFLATION.

3. IN OUR VIEW, INFORMAL UK APPROACH TO US SUGGESTING NEED
FOR PRESSURE ON JAPAN TO REFLATE FASTER REFLECTS PRIMARILY
UK FRUSTRATION OVER ITS INABILITY TO PERSUADE FEDREP EITHER
BILATERALLY OR WITHIN FRAMEWORK OF EC CONSULTATION TO DO
SOMETHING ABOUT ITS BURGEONING TRADE SURPLUS. REF C REPORTS
GERMAN CURRENT ACCOUNT SURPLUS OF \$9 BILLION IN 74 AND OECD
PROJECTION OF SIMILAR SURPLUS IN 75 WHEREAS JAPAN RAN
CURRNET ACCOUNT DEFICIT IN 74, ALBEIT WITH SMALL TRADE
SURPLUS; OECD ALSO FORECASTS JAPANESE CURRENT ACCOUNT EQUI-
LIBRIUM IN 75 WHICH OF COURSE WILL MEAN LARGER JAPANESE
TRADE SURPLUS TO OFFSET DEFICIT ON INVISIBLES WHICH HAS BEEN
RUNNING ANNUALLY ABOUT \$5 BILLION RECENTLY. IF JAPAN WERE
TO DECIDE TO SHIFT ITS POLICY NOW OR IN IMMEDIATE FUTURE,
WE BELIEVE IMPACT ON UK EXPORT EARNINGS WOULD BE QUITE
MARGINAL BILATERAL TRADE IMBALANCE BETWEEN JAPAN AND UK
HAS BEEN GROWING SLIGHTLY BUT FIGURES READILY AVAILABLE
HERE (JAPAN'S EXPORTS FOB, IMPORTS CIF) DO NOT RPT NOT
INDICATE WHAT WE WOULD CONSIDER AN ALARMING TREND. SUR-
PLUS IN JAPAN'S FAVOR IN CY 1974 ONLY \$50 MILLION LARGER
THAN IN CY 73 AND FIRST QUARTER 1974 JAPANESE SURPLUS
(\$133.5 MILLION) IS SMALLER THAN PRECEDING THREE QUARTERS
OF 1974 AND SAME AS JAPANESE SURPLUS IN FIRST QUARTER TWO
YEARS EARLIER. MOREOVER, GROWTH OF JAPANESE EXPORTS TO
UK IN EACH OF PAST FIVE QUARTERS (MEASURED YEAR OVER YEAR)
HAS BEEN WELL BELOW GROWTH OF EXPORTS TO
WORLD AND ALL OF WESTERN EUROPE, WHEREAS GROWTH IN
JAPAN'S IMPROTS FROM UK HAS BEEN ROUGHLY COMMENSURATE
WITH GROWTH FROM ALL OF WESTERN EUROPE. COMPARING FIRST
QUARTER 75 WITH FIRST QUARTER 74, JAPAN'S EXPORTS TO
WORLD INCREASED 28.1 0/0, TO ALL OF WESTERN EUROPE 33.8 0/0
BUT TO UK ONLY 13.9 0/0.

4. WE HAVE ALSO NOTED ARTICLE IN MAY 24-30 ISSUE OF LONDON
ECONOMIST (PAGE 98) INDICATING IMPROVEMENT IN UK TRADE
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POSITION IN FIRST QUARTER 1975 HAS BEEN SECOND ONLY TO
THAT OF US. MAY 30 ISSUE OF MORGAN GUARANTEE'S "WORLD
FINANCIAL MARKETS" SHOWS \$1 1/2 BILLION IMPROVEMENT IN UK'S
REASONABLY ADJUSTED CURRENT ACCOUNT BALANCE FROM LAST
QUARTER 74 TO FIRST QUARTER 75 VERSUS ONE-HALF BILLION
DOLLAR IMPROVEMENT IN CORRESPONDING JAPANESE BALANCE.

5. WE NOTE REFTTEL A SAYS UK WASH EMBASSY INITIATIVE IN
TAKING MATTER UP WITH STATE DEPT WAS BASED ON REPORTING
BY UK EMBASSY TOKYO. UK COMMERCIAL MINISTER MCGHIE LEFT
JAPAN ONLY FEW WEEKS AGO ON RETIREMENT FROM FOREIGN
SERVICE (HE IS TAKING UP POST IN LONDON AS SPECIAL
ADVISER TO BOARD OF TRADE). MCGHIE, IN HIS COMMENTS TO

SENIOR US EMBASSY OFFICIALS, MADE NO SECRET OF HIS IRRITATION WITH JAPANESE; HE IS FIRM BELIEVER IN "JAPAN INC" INTERPRETATION OF JAPANESE ECONOMY AND ECONOMIC POLICY. HE PROFESSED TO BE INFURIATED WITH JAPANESE NON-TARIFF BARRIERS AFFECTING BRITISH INDUSTRIAL, E.G. AUTOMOBILE EXPORTS TO JAPAN BUT DID NOT MENTION UK PRODUCTION DECLINES DUE TO STRIKES AND PHENOMENON OF JAPANESE IMPORTERS OF LUXURY UK AUTOS LIKE JAGUAR SEARCHING ALL OVER WORLD TO PURCHASE SUCH CARS FOR RESALE IN JAPAN.

6. ON SUBSTANCE OF ISSUE POSED REFTTEL A, DEBATE WITHIN JAPAN CONTINUES TO SMOLDER ABOUT WHEN (NOT WHETHER) GOJ SHOULD AND CAN AFFORD TO RESORT TO MORE VIGOROUS STIMULATION OF DOMESTIC ECONOMY. DEBATE IS FOCUSED

PRIMARILY ON DOMESTIC RATHER THAN EXTERNAL IMPLICATIONS OF ALTERNATIVE POLICIES. BUSINESS COMMUNITY IN GENERAL EVIDENCING INCREASING RESTIVENESS ABOUT CONTINUATION OF RESTRICTIVE DOMESTIC ECONOMIC POLICY, SOME PUBLICLY CHARGING "OVERKILL." BIG BUSINESS NEEDS IMPROVED PROFITS AND PRESSING FOR RELAXATION OF TIGHT MONEY POLICY TO ENABLE FULLER USE OF PLANT AND EQUIPMENT INVESTMENT WITH OBJECTIVE OF ACHIEVING PRODUCTIVITY GAINS TO OFFSET RISING UNIT LABOR COSTS. KEY GOJ ECONOMIC POLICYMAKER, DEPUTY PM FUKUDA, ON OTHER HAND CONTINUES TO WORRY THAT MORE RAPID RECOVERY WILL SPARK ANOTHER INFLATIONARY SPIRAL AND HE THEREFORE FAVORS MORE CAUTIOUS PACE OF

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RECOVERY UNTIL INFLATION IS MORE CLEARLY BROUGHT UNDER CONTROL. VIRULENT JAPANESE INFLATION RATE IN 1974 (24 0/0 INCREASE IN CPI AT END OF DEC OVER YEAR EARLIER) DROPPED BELOW 14 0/0 AT END OF MARCH (ON YEAR OVER YEAR BASIS) AND PAVED WAY FOR SUCCESS IN HOLDING DOWN SPRING WAGE HIKE TO ABOUT SAME LEVEL BUT CPI HAS BEGUN TO RISE AGAIN (2.5 0/0 IN MARCH, 1 0/0 IN APRIL) AND MORE PRESSURES ARE IN SIGHT, I.E. TOBACCO AND LIQUOR PRICE HIKE COMING SOON AND, MUCH MORE IMPORTANTLY, STEEL FIRMS ARE PRESSING

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FOR SUBSTANTIAL INCREASE. WIDESPREAD SPECULATION THAT

OIL PRODUCERS MAY EXTORT ANOTHER PRICE HIKE IN FALL IS FURTHER OMINOUS SIGN THAT JAPANESE WORRIES ABOUT INFLATION ARE REAL AND ARE LIKELY TO INDUCE FUKUDA TO RESIST BUSINESS PRESSURE FOR EARLY STIMULATION OF ECONOMY.

7. EXTERNALLY, JAPAN'S TRADE SURPLUS WILL UNQUESTIONABLY BECOME LARGER IN 1975 AS RESTRICTIVE DOMESTIC ECONOMIC POLICY LEADS TO VERY LOW GROWTH (OR, AS OECD FORECASTS, ANOTHER YEAR OF NEGATIVE GROWTH). WITH US BEGINNING TO RUN A GLOBAL TRADE SURPLUS, WE DOUBT GOJ WILL BE VERY RECEPTIVE TO COMPLAINTS ABOUT AN INCREASED JAPANESE BILATERAL TRADE SURPLUS WITH US (ALTHOUGH GOJ MAY BE SENSITIVE TO HIGH VISIBILITY ITEMS). WE BELIEVE GOJ WILL BE INSENSITIVE TO UK COMPLAINTS (GIVEN FIGURES PARA 3 AND 4 ABOVE) AND PARTICULARLY SO LONG AS ITS EC PARTNER GERMANY CONTINUES TO RUN SURPLUSES OF RECENT AND CURRENT MAGNITUDE. AN EXTERNAL AREA OF GREATER CONCERN TO JAPAN IS LIKELY TO BE GROWING PROBLEMS FACED BY LARGE NUMBER OF LDCS, IN ASIA AND ELSEWHERE, WHOSE
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ACCOUNTS ARE GETTING BADLY OUT OF WHACK AS JAPAN IMPORTS SMALLER VOLUME OF INDUSTRIAL RAW MATERIALS UNDER SLACK DOMESTIC ECONOMIC CONDITIONS WHILE LDC IMPORTING COUNTRIES SEEM UNABLE TO KICK THE HABIT OF IMPORTING MORE AND MORE FROM JAPAN EVEN IF THEY CANNOT REALLY AFFORD IT. AS PAYMENTS PROBLEMS FOR THESE LATTER COUNTRIES MULTIPLY, WE THINK JAPAN WILL SEE ITS OWN LONGER-RUN ECONOMIC INTERESTS WILL REQUIRE ACTION TO INCREASE IMPORTS AND ABSORB MORE OF JAPAN'S OWN INDUSTRIAL OUTPUT DOMESTICALLY, PERHAPS BY ACCELERATING PACE OF DOMESTIC ECONOMIC RECOVERY.

8. FINALLY, WE WISH NOTE THAT GOJ HAS POLICY TOOLS AND SYSTEM TO REFLATE MORE QUICKLY THAN MOST OTHER INDUSTRIALIZED COUNTRIES WHENEVER IT DECIDES TIME HAS COME TO DO SOO. GOJ IS MONITORING US AND WESTERN EUROPEANA

PERFORMANCE CLOSELY AND, IN OUR VIEW, WILL BE ABLE TO
AVOID BEING SIGNIFICANTLY OUT OF PHASE EVEN IF IMPLE-
MENATION OF A SHIFT IN POLICY LAGS BEHIND ANNOUNCED
SHIFTS IN OTHER MAJOR WORLD CENTERS. THIS QUICK RESPONSE
CAPABILITY RESTS NOT ONLY ON PARLIAMENTARY SYSTEM
(WITH LDP MAJORITY IN CONTROL) BUT UNIQUELY RESPONSIVE
JAPANESE BUSINESS COMMUNITY TO SIGNAL FROM GOJ THAT
TIME HAS COME TO SHIFT GEARS.

9. IF WASHINGTON'S ANALYSIS OF JAPAN'S ECONOMIC POLICY
AND ITS IMPACT ON MAJOR TRADING PARTNERS INDICATES
DESIRABILITY OF REFLATIONARY MEASURES HERE, BELIEVE OECD
EPC AND/OR EPC WORKING PARTIES LIKELY BE MORE EFFECTIVE
VEHICLE THAN BILATERAL REQUESTS TO GOJ FOR ACTION TO
REFLATE.
HODGSON

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